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RUZDHTR/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
RHMFISS/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
RUEPVAA/COMJSOC FT BRAGG NC
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RHEFDIA/DIA WASHINGTON DC//DHO-3//
RHEFDIA/DIA WASHINGTON DC//MIO-4//
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//
RHCKJAC/JAC MOLESWORTH JCDX RAF MOLESWORTH UK
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 1068
RUEHNE/AMEMBASSY NEW DELHI 5327
RUEHBUL/AMEMBASSY KABUL 0725
RUEHLH/AMCONSUL LAHORE 7694
RUEHKP/AMCONSUL KARACHI 2090
RUEHPW/AMCONSUL PESHAWAR 6662
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

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SENSITIVE
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SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, 29 JULY 2009

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TOP STORIES
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1. (SBU) Protesters held demonstrations and rallies in various cities and towns throughout Pakistan over the 12 to 18 hours of electricity load shedding (rolling blackouts). Protesters set fire to passenger trains in Jhang and badly damaged more in Faisalabad where a number of vehicles were also pelted with stones. In Peshawar, protesters blocked the Peshawar-Kohat Road and the Grand Trunk Road, disrupting the flow of traffic for several hours while they shouted slogans against the government and the Pakistan Electric Supply Company (Pepco). People in Islamabad, Rawalpindi, Chakwal and Attock suffered enormous problems as transporters kept their vehicles off the road to protest high fuel prices and in support of a strike called against load shedding. (Comment: While not nearly as disruptive as events in Karachi, Punjab government

officials have expressed concern about the mounting unrest in the province, and the potential for the provincial government to become a target. Politicians with other agendas may have taken advantage of load shedding to urge their followers into the streets to settle political scores.)

12. (SBU) The State Bank of Pakistan (SBP) reported that foreign investment into Pakistan declined by 51 percent during fiscal year 2008-09. According to the report, FDI stood at USD 3.7218 billion in fiscal year 2009 against USD 5.4098 billion in fiscal year 2008, a decline of 31.2 percent, while the portfolio investment dropped precipitously by 2,725 percent. (Comment: In addition to the global financial crisis, domestic shocks such as the worsening law and order situation, negative economic indicators and power shortages have hurt foreign investment in Pakistan.)

13. (SBU) The current account deficit of Pakistan has decreased by 36 percent in fiscal year 2008-09. The State Bank of Pakistan (SBP) revealed that the country has posted a current account deficit of USD 8.861 billion in fiscal year 2008-09, compared to USD 13.866 billion in fiscal year 2007-08. The current account deficit as a percentage of GDP has dropped to 5.4 percent in fiscal year 2008-2009 from 8.7 percent of GDP in fiscal year 2007-2008. (Comment: This massive decrease is attributed mostly to higher remittances and a decline in imports. However, 5.4 percent is much better than the IMF projection for the current account deficit as percent of GDP which was -6.5 percent.)

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14. (SBU) The Ministry of Water and Power announced a 24 percent increase in the power tariff which it plans to implement in three phases. The first phase is scheduled to commence on October 1, 2009 with a tariff raise of 8-10 percent. This will be followed by a 5-6 percent increase on January 1, 2010, and then another 5-6 percent in April, 2010. Ministry officials told ECON that the cost of power per unit is Rs 8.25, while the government is selling it at Rs 5.45. (Comment: The GOP has promised the ADB, the World Bank and the IMF before that it would increase the power tariff but has backed down each time for political reasons. The circular debt issue cannot be addressed without an increase in the tariffs. Although the ADB and the WB have shown willingness to work with the GOP on the proposed tariff rise, the IMF is still considering the plan and has not yet given the final nod.)

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TRADE
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15. (SBU) On July 27, the Government of Pakistan unveiled its new trade policy for fiscal years 2009-2012 (July-June) which will cover incentives for non-textile exports (47 percent share in total exports). A separate policy for textiles reportedly will follow. The policy aims to grow exports by 29 percent over the next three years and sets the export growth rate target at 6 percent for 2009-10 and 10 percent and 13 percent for each of the successive years. (Comment: Given Pakistan's constrained budgetary means, questions over the execution of the policy are likely to remain until there is clarity on how much cash the GOP is willing to put into the various incentive plans; it is unclear how much of the necessary funds are captured in the recently passed FY 2009-2010 budget.)

16. (SBU) The Business Recorder reported that Pakistan could receive access to Tajikistan through Afghanistan under the Afghan-Pakistan Transit Trade Agreement (APTTA). President Zardari announced on a visit to Dushanbe July 29 that the two countries agreed to exploit the benefits of increased trade once Pakistan concludes the APTTA agreement later this year. On signing this Agreement, Pakistan would have access to Tajikistan through the territory of Afghanistan. The access points into Tajikistan from Afghanistan discussed Polekhumri-Ali Khanem and Polekhumri-Shir Khan Bandar. (Comment: It is not clear at this stage on what terms Pakistan and

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Tajikistan will trade once APTTA is signed and press reports indicate the two sides may be considering signing a separate, parallel agreement. In 2008 Tajikistan exports totaled USD 1.4 billion and imports were USD 3.2 billion. Tajikistan's major importing partners are Russia (32.1 percent), Kazakhstan (13.1 percent), China (10.8 percent) and Uzbekistan (8.4 percent). If Pakistan gains trade access to Tajikistan, Pakistani exports will have to compete with Russia and China for the USD 3.2 billion market.)

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ENERGY, POWER AND WATER
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17. (SBU) Pakistan Electric Power Company (PEPCO) Managing Director (MD) Tahir Basharat Cheema announced that PEPCO has launched 20 new projects to ensure the availability of an additional 3,500MW of electricity by the end of the calendar year. Cheema told press that the introduction of a pilot automatic meter-reading system at Bhaati Gate and Shadman in Lahore has reduced losses by 40 percent.

18. (SBU) According to Water and Power Development Authority (WAPDA) data, heavy rains and snow melt have helped raise water levels in the Tarbela reservoir by 96 feet since July 1. This improvement in reservoir levels is welcome news. Tarbela is now just 47 feet below maximum holding capacity and could top off by mid August. Mangla reservoir has risen 21 feet since July 1, leaving it only 23 feet below capacity. (Comment: This dramatic improvement in reservoir levels since June bodes well, but substantial future river flows may be lost because of the lack of additional reservoir capacity. Demand for maximum power generation could result in rapid draining of the reservoirs after the monsoon season, which could complicate efforts to use hydroelectric power as means to address load shedding through the end of the year.)

19. (SBU) In a meeting on July 24, the Executive Committee of the Lahore Chamber of Commerce and Industry (LCCI) pressed a French trade delegation for access to nuclear power plant technology, in addition to other economic assistance. The delegation, headed by French Minister for Foreign Trade Anne Marie Idrac, stressed that France could only cooperate with Pakistan on nuclear safety and security within the bounds of international law. Idrac did, however, promise support on other energy and economic fronts. (Comment: The increased load shedding has made nuclear energy a hot

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issue again, with Consulate Lahore personnel encountering pleas for a nuclear deal in at least four gatherings during the week of July 20.)

110. (SBU) The GOP is planning to ration natural gas in the winter. Sui Northern Gas Pipelines Ltd (SNGPL) Managing Director Rasheed Lone told the press that SNGPL will upgrade existing gas meters to limit natural gas consumption. When a consumer increases the usage of gas appliances, the gas pressure will drop, preventing the use of additional home appliances. Lone stressed that low-end consumers would not be affected; the rationing would apply only to those users paying over Rs. 10,000 per month for their natural gas bill. (Comment: We understand that limiting consumers' access to natural gas is part of the GOP strategy to ensure additional gas supplies will be available for power generation - a means of reducing the substantially higher cost of producing power from fuel oil and narrowing the disparity between generation costs and the price the GOP is willing to charge consumers for electric power. While the GOP plan may be advantageous to the power generation industry and the GOP balance sheet, consumers will likely hold a far more negative view.)

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STOCK MARKET
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111. (SBU) The Karachi Stock Exchange KSE-100 Index closed at 7674.77, after losing 36.29 points on Tuesday, July 28, 2009. Investors still remain concerned over the declining currency value

and further delay on the announcement of a new monetary policy. The index is up 33 percent since the start of 2009 but down 51 percent from its lifetime high of 15,676.34 on April 18, 2008.

¶12. (SBU) The Lahore Stock Exchange (LSE) was volatile throughout July, but the LSE 25 Index still climbed 7.9 percent on the strength of oil and banking stocks. Market capitalization was up 5.6 percent, and volume has been average all month.

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BUSINESS
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¶13. (SBU) Citibank is closing five branches in Pakistan (Multan, Gujranwala, Sialkot, Jhelum, and Hyderabad) on September 1, reducing

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the number of branches from 23 to 18. According to a press release, Citibank needs to direct its "human and financial capital and our distribution channels ... towards a more streamlined and sustainable business model. We are consolidating our business into a more efficient network of branches, phone banking and state-of-the-art online banking services in line with our 'clicks not bricks' strategy."

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AGRICULTURE
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¶14. (SBU) Local media reported that the GOP imported USD 1 billion worth of wheat in fiscal year 2008-2009, representing a 23 percent increase from the previous year. GOP officials attribute the huge import bill to high international wheat prices combined with problems with hoarding and smuggling. (Comment: Despite having a bumper crop of wheat in 2009, Pakistan was forced to import a large amount of wheat over the winter months. High international prices and hoarding/smuggling were reportedly the sources of the problem; however, the main cause of the huge wheat import was GOP mismanagement of the commodity.)

FEIERSTEIN